

**REPORT OF THE AUDIT OF THE  
ESTILL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ESTILL COUNTY SHERIFF**

**For The Year Ended  
December 31, 2008**

The Auditor of Public Accounts has completed the Estill County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$24,710 from the prior year, resulting in excess fees of \$75,054 as of December 31, 2008. Revenues increased by \$64,227 from the prior year and expenditures increased by \$39,517.

#### **Report Comments:**

- The Sheriff Should Invest Funds In Interest-Bearing Accounts
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Make Daily Deposits

#### **Deposits:**

The Sheriff's deposits as of December 10, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$356,815

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENTS AND RECOMMENDATIONS .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Estill County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2009 on our consideration of the Estill County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Invest Funds In Interest-Bearing Accounts
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Make Daily Deposits

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Estill County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 1, 2009



ESTILL COUNTY  
GARY FREEMAN, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services:

KLEFPF	\$ 10,473	
Sheriff Security Service	<u>4,842</u>	\$ 15,315

Circuit Court Clerk:

Fines and Fees Collected		4,770
--------------------------	--	-------

Fiscal Court		51,864
--------------	--	--------

County Clerk - Delinquent Taxes		1,872
---------------------------------	--	-------

Commission On Taxes Collected		153,050
-------------------------------	--	---------

Telecommunications Tax		2,709
------------------------	--	-------

Fees Collected For Services:

Auto Inspections	3,300	
Accident and Police Reports	605	
Serving Papers	27,230	
Carrying Concealed Deadly Weapon Permits	<u>2,179</u>	33,314

Other:

Add-on Fees	29,657	
Advertising Fee Collected	2,580	
Miscellaneous	<u>1,581</u>	33,818

Interest Earned		140
-----------------	--	-----

Borrowed Money:

State Advancement		<u>21,056</u>
-------------------	--	---------------

Total Revenues		317,908
----------------	--	---------

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY  
 GARY FREEMAN, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	33,667
Part-Time Salaries		3,682
Other Salaries		42,117
Overtime		121
KLEFPF Gross Salaries		8,624

Employee Benefits-

Employer's Share Social Security		11,668
Employer's Share Retirement		11,514
Employer Paid Health Insurance		4,469

Contracted Services-

Advertising		153
Computer Service		780

Materials and Supplies-

Office Materials and Supplies		4,112
Uniforms		1,417

Auto Expense-

Gasoline		12,288
Maintenance and Repairs		8,705

Other Charges-

Dues		377
Postage		127
Telephone		1,601
Reimbursement		584
Miscellaneous		233

Capital Outlay-

Office Equipment		400
Deputy Equipment		1,139
	\$	147,778

Debt Service:

State Advancement		21,056
-------------------	--	--------

Total Expenditures		\$	168,834
--------------------	--	----	---------

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY  
GARY FREEMAN, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2008  
(Continued)

Net Revenues	\$ 149,074
Less: Statutory Maximum	<u>74,020</u>
Excess Fees Due County for 2008	75,054
Payment to Fiscal Court - February 13, 2009	<u>75,054</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Estill County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Estill County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 10, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$356,815

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 4. Drug Forfeiture Account

The Estill County Sheriff maintains an account for the purpose of receiving assets forfeited to the Commonwealth of Kentucky as a result of legal proceedings. Expenditures from this fund are to be for law enforcement activities. The balance in this account on January 1, 2008 was \$5014. There were no receipts during 2008 and expenditures totaled \$1,036, leaving an account balance of \$3,978 as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wallace Taylor, Estill County Judge/Executive  
The Honorable Gary Freeman, Estill County Sheriff  
Members of the Estill County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Estill County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated May 1, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Invest Funds In Interest-Bearing Accounts
- The Sheriff's Office Should Make Daily Deposits

This report is intended solely for the information and use of management, the Estill County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

May 1, 2009

## COMMENTS AND RECOMMENDATIONS



ESTILL COUNTY  
GARY FREEMAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Invest Funds In Interest-Bearing Accounts

The Sheriff deposited funds into a non-interest-bearing account. KRS 66.480 states that the Sheriff may, and at the direction of the fiscal court shall, invest and reinvest money subjected to their control and jurisdiction. Prudent financial management dictates that the Sheriff take advantage of earnings potential by depositing funds into interest-bearing bank accounts.

*Sheriff's Response: No Response*

The Sheriff's Office Should Make Daily Deposits

During the testing of receipts, we noted that eight (8) deposits totaling \$4,599 collected for July 15 through July 25 were not deposited into the bank until July 28, 2008. Under the authority of KRS 68.210, the Department for Local Government (DLG) has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution". We recommend the Sheriff implement procedures to ensure receipts are deposited within three business days in order to meet the requirements established by DLG.

*Sheriff's Response: No Response*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties for receipts and disbursements. The bookkeeper collects receipts, records transactions, issues checks, and posts amounts to the receipts and disbursements ledgers. Good internal controls dictate the same employee should not handle and record receipts and disbursements. The Sheriff should either segregate these duties or perform the following compensating controls to help offset this weakness. If the Sheriff performs these compensating controls, he should initial the supporting documentation reviewed.

- Agree daily deposits to the daily checkout sheet and the receipts ledger.
- Agree quarterly financial reports to the receipts and disbursements ledger.
- Review monthly bank reconciliations.
- Compare the bank reconciliation to the balance in the checkbook.
- Compare invoices to payments.
- Perform surprise cash counts of receipts.

*Sheriff's Response: No Response*

